

RETIREMENT QUARTERLY

Fire and Police Retirement System

July 2004



Actuarial Study for Projection of Available Surplus

Once again, the Fire and Police Retirement Board directed their actuary to prepare a special actuarial study to project available surplus for the next six years to determine the fiscal impacts to the City, DROP participants and retirees. The purpose of this study is to learn the effect on the System's surplus distribution of various market returns over the next 6 years. The Board is providing this information to hopefully assist its members and retirees in understanding the investment market and its related impact. The Board believes that it is important to remember that your City of Fresno Fire and Police Retirement System remains one of the **highest funded public retirement systems in the state of California** and that your pension Trust remains protected and financially sound.

- The Study projects the impact associated with the recognition of deferred market losses through June 30, 2003 and the deferral of future gains and losses. The amount of deferred losses as of June 30, 2003, using the three - year valuation asset smoothing method, was \$21.7 million for the System.
- The Study also utilizes the City's prepaid contributions in the projections to determine how long the City's contributions can be maintained at \$0.
- The Actuary has provided employee contribution and actual City contributions under four market return scenarios.

The results of the actuary's special study has projected the following potential impacts:

To the Retirees and DROP Participants:

The actuary is projecting that the PRSB Reserve Fund will be substantially depleted over the next 2 years.

Beginning in January 2005, the actuary projects a significant reduction in the PRSB amount.

To the City:

In 2007, the City is projected to deplete its Surplus Reserve and most of the prepayments from the Pension Obligation Bonds issued in 1994. If this projection is correct, the City will begin to make substantial contributions amounting to approximately **39 percent of their total contribution rate** (\$5.8 million) in 2007. In 2008, the City will likely be at the 100 percent contribution level or be required to contribute approximately \$14.8 million annually.

SUMMARY

We will keep you informed on this important issue. The Retirement Board is providing this information to help you understand what has happened over the last few years and to allow PRSB recipients an opportunity to plan for the future. The PRSB program has been a great program for retirees, DROP participants and the City, but because the PRSB is contingent upon the availability of surplus earnings in the System, it would be prudent to immediately begin planning for the future with these changes in mind. This information is also provided to the City Council for budget planning purposes.,

RETIREMENT BOARD ELECTIONS

At the July Retirement Board meeting the Board conducted the annual election for Chair and Vice Chair. Fire Member, Paul Cliby was elected as Chair and Darrell Fifield was re-elected as Vice-Chair.

In March 2004, a Notice of Election was circulated among the Police Members of the Fire and Police Retirement System. A nomination petition was received and in June 2004, the Board certified the re-election of Brian Burry as the Police Member on the Fire and Police Retirement

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DROP Rate Set for FY 2005

At the Fire and Police Retirement Board meeting on July 21, 2004, the Board approve the Annual Net Effective DROP Interest Rate for fiscal year 2005 at 3.74 percent. The interest rate is based on the System's average net investment earnings over the prior five years.

The Fire and Police Retirement Board is required under Fresno Municipal Code 2-1744 and 2-1744A "Deferred Retirement Option Program", to annually adopt an Annual Effective DROP Interest Rate, which shall apply to each DROP account during the retirement systems fiscal year in which the Board sets the rate.

Because the DROP Program has initially been determined to be cost neutral to the Retirement System, it is not necessary for the Board to consider any adjustments to the Rate to maintain cost neutrality of the System for fiscal year 2005. The Boards' Actuary will be reviewing the cost neutrality of the Program during his upcoming actuarial study of June 30, 2004.

Annual Member Contribution and DROP Statements Distributed

Active member contribution and DROP statements as of June 30, 2004 have been distributed to the members. If beneficiary information contained on your statement is not correct, please complete the Change of Beneficiary form that was enclosed with your statement, or

- Call the Retirement Office at (559) 621-7080 and we'll send one to you, or
- Go to "System Forms" on the City of Fresno's Web Site at <http://www.fresno.gov/Retirement/>

For ACTIVE EMPLOYEES (NOT DROP MEMBERS): Your address information is downloaded from PeopleSoft. If your address information is not correct on your statement, please notify your division payroll clerk.

For ACTIVE DROP MEMBERS: You should notify the Retirement Office of any address changes.

DEFERRED COMPENSATION NEWS

SERVICE ENHANCEMENT UPDATE - PORTFOLIO REBALANCE

The Fidelity NetBenefits® Portfolio Rebalance service has been enhanced to make it even easier for participants to reallocate their workplace savings plan balances. This feature, which lets participants reallocate their entire account in one simple transaction, will now provide greater flexibility. And with added functionality, Portfolio Rebalance is available to even more workplace savings plans.

Enhancements to Portfolio Rebalance include:

- Refinements to plan investment display options to exclude closed or frozen funds for participants who don't currently have a balance.
- The ability to rebalance Fidelity Select Funds.
- Added flexibility to support plan-specific investment parameters, including the display of Fund Tiers and the ability to elect partial percentages.
- A simplified process for requesting/viewing fund prospectuses as well as an expanded selection of online prospectuses.

Benefits to your Plan:

- Greater access: participants have a new way to manage their account through one single transaction versus multiple exchanges.
- Improved participant asset allocation: This service makes it easy for participants to maintain a consistent, long-term investment strategy by rebalancing their portfolio to maintain their desired asset allocation.

Benefits to Participants:

- Greater convenience: Allows participants to manage their portfolio's asset through a single transaction.
- Flexibility and Control: For the "do-it-yourselfer" to reallocate their desired portfolio quickly and efficiently without having to calculate and enter individual exchanges.
- Investment Strategy: Participants can maintain a consistent, long-term investment strategy by rebalancing their portfolio to align it with their ideal investment mix.

If you have any questions, please contact Fidelity Investments at 1 (800) 430-2363.



CITY COUNCIL APPROVES NEW BOARD OF TRUSTEE STRUCTURE FOR DEFERRED COMPENSATION PLAN

On July 20, 2004, a public hearing was held before the City Council to adopt changes to the Deferred Compensation Plan document, as recommended by the Deferred Compensation Committee, to modify the City of Fresno Deferred Compensation Committee structure to a five member Board.

In the current plan, the Deferred Compensation Committee structure consisted of representatives from the City Manager's Office, the City Attorney's Office and the City Finance Department. The City Attorney opined that having a representative from the City Attorney's Office as part of the Deferred Compensation Committee structure while the City Attorney acts as counsel for the Committee creates a potential conflict of interest. Upon review of several options, the Council requested that the Deferred Compensation Committee conduct a survey of the Plan participants and other related Deferred Compensation issues. After reviewing the results of this survey, the Committee recommended the

following composition for the Deferred Compensation Board:

- two members appointed by the City Manager and confirmed by the Council (one member from the Finance Department and one member from any City Department)
- two members elected by and from the participants of the Plan who have a non-zero balance in the Deferred Compensation account (both active and retired participants would qualify.)
- a fifth member chosen by the other four members from qualified electors of Fresno county who have no connection with the Plan or the City of Fresno, preferably someone with investment knowledge and experience.

The Committee also recommended that the revised structure be referred to as the Deferred Compensation Board to conform with all other City Boards and in order to enhance the ability to recruit an outside member from the local financial community.

INVESTMENT REPORT

by Stanley McDivitt, Retirement Administrator

Status of Investment Committee Projects

The Investment Committee recently completed its evaluation of firms that provide Securities Litigation monitoring services. The Boards' have retained the services of Investor Responsibility Support Services, Inc. (IRSS) in Media, Pennsylvania. IRSS will perform securities class action litigation review, monitoring and support services for the City of Fresno Retirement Systems which will ensure that the Systems receive all the proceeds to which they are entitled from class action litigation settlements.

The Committee recently completed its analysis and search of large cap enhanced equity managers. The Boards' hired Barclays Global Investors (BGI) located in San Francisco to managed a large cap enhanced equity index fund in the amount of approximately \$80 million. The Investment Committee recently completed its due diligence review of high yield fixed income managers and has formalized its investment guidelines for the Boards' to adopt a policy for High Yield investments and High Yield Fixed Income Manager. In the coming months, the Committee will be considering investment manager searches for real estate investment trusts and large cap growth products.

The Economy

The Federal Reserve in June raised their interest rate target for overnight loans between banks for the first time in four years. The federal funds target rose .25% to 1.25% from a four-decade low of 1 percent. Consumer confidence appears to remain fairly strong despite a temporary slowing of consumer spending and reports that

the economy is ranked as the No. 1 issue in this year's Presidential campaign.

Investment Performance of the Systems

For the current twelve months ending June 30, 2004 our System's cumulative investment returns were 17.70 percent. Our investment results remain solid with consistent annualized returns in excess of 10 percent over the past fifteen years. For the past five years the System's annualized return was 4.21% which compares very favorable with the five year return of the SP 500 return of -2.20%, the Russell 2000 Growth return of -0.45%, MSCI EAFE International Index return of 0.06% and the Lehman Aggregate bond index of 6.95%.

As of June 30, 2004, the Retirement System's portfolio had 66.8 percent in equities, 25.0 percent in fixed income, 8.0 percent in an open ended real estate investment fund and .2 percent in cash. The investments were further diversified into the following asset classes and target percentages:

Large-Cap equities	34.8%
Small-Cap equities	12.1%
International equities	16.6%
Emerging Market equities	3.3%
Domestic fixed income	25.0%
Real estate	8.0%
Cash	0.2%
Total	100%

This asset class diversification along with portfolio investment style diversification is all part of the Retirement Board's Investment Risk Management Program.

Pension Check Schedule 2004

The following are the dates pension benefit checks will be mailed for the next six months. Keep this schedule handy so you will know when your benefit check will be mailed.

August 31, 2004
September 30, 2004
October 29, 2004
November 30, 2004
December 31, 2004
January 31, 2005

Direct Deposits (ACH) will be *in your account* on the above dates.

If you are interested in direct deposit of your pension benefit checks, please call the Retirement Office at (559) 621-7080.

RETIREMENTS

January 1, 2004 to June 30, 2004

Police

Thomas Scheppegrell
Henry Coy
Arthur Kiehn
Victoria Munoz
Robert Rodriguez
Lori Leist
Hugh McClure
Thomas Nabors
Raul Cantu Jr.
Irel Del Valle
David Webster

Fire

Robert Peluso
Victor Bringetto
David Gaebel
Ryan Michael
Curtis Christianson
James Grace

BOARD OF TRUSTEES

Elected Trustees

Paul Cliby, Chair-Fire Member
Brian Burry, Police Member

Trustees Designated or Appointed

Darrell Field, Vice Chair
Carla Lombardi, Appointed
Stephen Guinn, Outside Member



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